



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6146-N-02]

Privacy Act of 1974; System of Records, Validation and Disposition Services (VDS–Best Ex)

AGENCY: Office of Single Family Asset Management, HUD.

ACTION: Notice of a New System of Records.

SUMMARY: In accordance with the Privacy Act of 1974, as amended, the Office of Single Family Asset Management, Department of Housing and Urban Development (HUD), proposes to create a new system of records (SOR) titled Validation and Disposition Services (VDS–Best Ex). The SOR VDS–Best Ex will allow HUD to mitigate financial risk to the Federal Housing Administration (FHA) Mutual Mortgage Insurance Fund (MMIF) by providing property valuation and disposition strategies for:

- FHA’s Single Family Forward Mortgage Insurance portfolio of loans 90 days or more delinquent.
- FHA’s Single Family Secretary-held Real Estate Owned (REO) portfolio.

The SOR VDS–Best Ex will perform statistical analysis of individual property address, square footage, age of property, location, and associated property characteristics such as number and type of living units to identify similarly situated comparable properties. This analysis will provide a valuation to compare the value of neighboring properties with similar attributes and provide a point-in-time estimation of the current value of the FHA property.

- VDS–Best Ex will use a Best Execution Calculator and use Automated Valuation Models (AVMs) to provide FHA/HUD with the best of four strategies for disposing of mortgages that are over 90 days delinquent.
- VDS–Best Ex will establish a Fair Market List Price and a bid and counteroffer process for HUD’s Single Family REO properties, to identify the ideal pricing point and discount rate percentages that FHA should consider when selling a property from its Secretary-held REO portfolio.

DATES: [INSERT DATE THAT IS 30 DAYS AFTER PUBLICATION OF THIS NOTICE IN THE *FEDERAL REGISTER*]

Comments Due Date: [INSERT DATE THAT IS 30 DAYS AFTER PUBLICATION IN THE *FEDERAL REGISTER*].

ADDRESSES: You may submit comments, identified by docket number HUD-2018-[XXXX] by one of the following methods:

Federal e-Rulemaking Portal: <http://www.regulations.gov>. Follow the instructions provided on that site to submit comments electronically.

Fax: 202-619-8365.

Email: privacy@hud.gov.

Mail: Attention: Housing and Urban and Development, Privacy Office; John Bravacos, The Executive Secretariat; 451 Seventh Street, SW, Room 10139; Washington, DC 20410.

Instructions: All submissions received must include the agency name and docket number for this rulemaking. All comments received will be posted without change to <http://www.regulations.gov>, including any personal information provided.

Docket: For access to the docket to read background documents or comments received go to <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: John Bravacos, Senior Agency Official for Privacy; 451 Seventh Street, SW, Room 10139; Washington, DC 20410; telephone number 202-708-3054 (this is not a toll-free number). Individuals who are hearing- or speech-impaired may access this telephone number via TTY by calling the Federal Relay Service at 800-877-8339 (this is a toll-free number).

SUPPLEMENTARY INFORMATION: The Department moves to provide property valuation and disposition strategies for FHA's Single Family Forward Mortgage Insurance portfolio of loans over 90 days delinquent and for FHA's Single Family Secretary-held REO portfolio managed by the Office of Single Family Asset Management. The VDS-Best Ex will support the mission of the Department by mitigating losses and financial risk to the FHA Mutual Mortgage Insurance Fund. The Department, therefore, is creating a new system of records because the VDS-Best Ex will retrieve and access information, using FHA case numbers, to identify and provide the most cost-effective disposition strategy for mortgage cases that are over 90-days delinquent or a Secretary-held REO property.

The FHA endorses mortgages made by qualified lenders to individuals purchasing or refinancing a primary residence. The FHA's Single Family Mortgage Insurance Program provides mortgage insurance to protect lenders against the risk of default on mortgages to qualified buyers. The FHA expands homeownership opportunities for first-time homebuyers and other borrowers who would not otherwise qualify for conventional mortgages on affordable terms, as well as for those

who live in underserved areas where mortgages may be harder to get. These obligations are protected by FHA's Mutual Mortgage Insurance Fund, which is sustained entirely by borrower premiums.

This program is authorized under section 203, National Housing Act (12 U.S.C. 1709(b),(i)). Program regulations are in 24 CFR part 203. If the borrower/co-borrower fails to make any payment under the insured mortgage, and such failure continues for a period of 30 days, the endorsed mortgage loan (FHA case) is considered to be in default. HUD provides training to mortgage lenders and Housing Counseling Agencies, who are then better able to aid homeowners in order to avoid foreclosure. Mortgage lenders (mortgagees) report delinquent servicing activities for all FHA cases that are 30, 60, and 90 days or more delinquent as of the last day of the month. Mortgagees must reevaluate each delinquent mortgage monthly for loss mitigation eligibility until reinstatement. If the delinquency cannot be cured, the mortgagee must take action to acquire the property. The mortgagee must acquire clear, marketable title and transfer the property to the Secretary of HUD. The property then becomes part of FHA's Single Family REO portfolio. VDS-Best Ex will analyze common characteristics of the over-90-day delinquent mortgage portfolio and provide the most cost-effective property disposition strategy. For REO properties, VDS-Best Ex will establish a Fair Market List Price, together with a bid and counteroffer process, to identify FHA's ideal pricing point and discount rate percentages. Implementation of the VDS-Best Ex strategies will allow HUD to minimize losses and to mitigate financial risk to the Mutual Mortgage Insurance Fund.

Phase I will focus on the best strategy for disposition of FHA Single Family Forward Mortgage Insurance loans over 90 days. A Best Execution Calculator will be developed to provide FHA/HUD with the best of four strategies for disposing of the delinquent mortgages. AVMs will be a key component in this solution. The solution requires data input regarding the property

location and characteristics to perform a statistical analysis using similarly situated comparable properties (aka comparables/comps) to provide a valuation. Data regarding the property address, square footage, age, etc., will be required to compare the value of neighboring properties with similar attributes and provide a point-in-time estimation of the current value of the FHA property. This estimated value will then be compared across several options used in disposing delinquent FHA properties, to provide a disposition strategy that results in the best return to HUD. The data that will support this function are the historic mortgage costs associated with the similarly situated properties that utilized the targeted disposition procedures. The output of this process will be a series of valuations that identify the current value of the property.

Phase II involves REO foreclosed properties owned by the Secretary of HUD (i.e., Secretary-held). A process to establish a Fair Market List Price for REO properties will be created. The bid and counteroffer process for the REO properties will be managed as part of the VDS–Best Ex solution. The output for this service will include a value identifying what is the ideal pricing point and discount rate percentages that FHA should consider when selling an REO property. Information required to achieve this valuation will be information regarding the property address, square footage, age, etc., that will be required to compare the value of neighboring properties with similar attributes and provide a point-in-time estimation of the current value of the FHA property. The resulting valuation will then be compared against purchasing offers made for each REO property to ascertain whether to accept a bid, reject a bid, and/or counteroffer based on assessment of the proposed amount only.

VDS–Best Ex will routinely produce **property valuations** and determine **property disposition** strategies for the FHA Single Family Forward Mortgage Insurance delinquent portfolio. The property valuation part of the contract will be completed using the AVM suite. The AVM will create a point-in-time “value” for the property (either retroactive, current, or future). The AVM

suite will be used to finalize and train a customized model that will generate a set of “reserve prices” for each disposition option, with the goal of minimizing the loss to HUD/FHA due to a delinquent property claim.

SYSTEM NAME AND NUMBER: Valuation and Disposition Services (VDS–Best Ex).

SECURITY CLASSIFICATION: Unclassified, non-sensitive, for official use only.

SYSTEM LOCATION: The system is externally hosted and controlled at the contractor’s primary and backup facilities. The VDS primary host server is in Plano, Texas (2300 West Plano Parkway, Plano, TX 75075); the data and statistical modeling is hosted in Roseville, California (2270 Douglas Boulevard, Suite 120, Roseville, CA 95661); Washington, DC (601 New Jersey Avenue, NW, Suite 400, Washington, DC 20001); and Herndon, VA (950 Herndon Parkway, Suite 410, Herndon, VA 20170). The backup/disaster recovery facilities for the main data centers are in Quincy, Washington (525 D Street, NW, Quincy, WA 98848).

The VDS–Best Ex outputs will be accessible at workstations located at the following locations: 451 Seventh Street, SW, Washington, DC 20410 and at HUD National Servicing Center 301 Northwest 6th Street, Suite 200, Oklahoma City, OK 73102.

Records of system outputs will be maintained at the Department of Housing and Urban Development Headquarters, at 451 Seventh Street, SW, Room 4156, Washington, DC 20410.

SYSTEM MANAGER: Ivery Himes, VDS–Best Ex system owner and Director of the Office of Single Family Asset Management, Department of Housing and Urban Development, Room 9178, 451 Seventh Street, SW, Washington, DC 20410.

AUTHORITY FOR MAINTENANCE OF THE SYSTEM: Section 203, National Housing Act as amended (12 U.S.C. § 1709, subchapter II, §§ 1707 et seq., 1710, 1715u, 1715z-16) enables HUD/FHA to process applications for HUD single family mortgage insurance. Social Security numbers are not collected or maintained in VDS–Best Ex.

PURPOSES OF THE SYSTEM: VDS–Best Ex will routinely produce property valuations and determine property disposition strategies for the FHA Single Family Forward Mortgage insurance loans over 90 days delinquent and for Secretary-held REO properties.

In operation, the VDS–Best Ex system will be used to:

- Create a point-in-time “value” for the property using an Automated Valuation Model (AVM) suite to finalize and train a customized model that will generate a set of “reserve prices” for each disposition option, with the goal of minimizing the loss to HUD/FHA due to a delinquent property claim.
- Provide a data-based analysis to determine the essential decision factors affecting the projected return of delinquent assets, based on historic FHA data on originations, claims, and servicing actions and costs.
- Compare purchasing offers made for each REO property to ascertain whether to accept a bid, reject a bid, and/or counteroffer based on assessment of the proposed amount, using a valuation that identifies what is the ideal pricing point and discount rate percentages that FHA should consider when selling a property.

CATEGORIES OF INDIVIDUALS COVERED BY THE SYSTEM:

- **Defaulted Loan Portfolio:** Individuals covered by this system are mortgagors with loans insured by HUD/FHA’s single family mortgage insurance programs whose associated loans are over 90 days delinquent.
- **Secretary-held Real Estate Owned (REO) Portfolio:** Defaulted single family mortgage loans where titles have been deeded to the Secretary of HUD and do not have mortgagor-specific information.

CATEGORIES OF RECORDS IN THE SYSTEM: Information provided to the VDS–Best Ex system contains the following categories of records in the system:

Default Loan Portfolio (FHA Mortgagor) Property Characteristic/Attribute Records: FHA

Case Number; Property Address, City, State, Zip Code; Endorsement Code; Mortgage Origination, Endorsement, and Default Dates; Federal Information Processing Standard (FIPS) County Code, FIPS State Code, First-Time Home Buyer Status; Mortgage Loan Amount, Interest Rate, Loan Type (Fixed/ARM); Insurance Status/Rate; Last Payment/Default Date/Unpaid Balance; Due Date of Last Payment + 60 Days; Amortization Begin Date (Calendar Year); Amortization Begin Date (Calendar Quarter); Property Type (Condo/Single Family); Credit Subsidy Cohort; Property Interior/Exterior Features; Default Prosperity Occupancy Status; Loss Mitigation Code Types.

REO Property (HUD-Held/-Owned Properties) Characteristic/Attribute Records: FHA

Case Number; Endorsement Code; Property Address, City, State, Zip Code; Mortgage Rate/Loan Type; Mortgage Origination, Endorsement, and Default Dates; Amortization Begin Date (Calendar Year); Amortization Begin Date (Calendar Quarter); FIPS State Code; Property/Claim Type; Property Disposition/Acquisition Date; Loan-to-Value Category (New/Old); Interest Rate; Contract Sales Price; Mortgage Term; Insurance Termination Date; Property Appraisal Estimate; Default Event Codes; Evaluation Codes; Interior Features/External type; Property List Dates; Transactional Records; Conveyed Damaged Indicators.

RECORD SOURCE CATEGORIES: Records are transmitted to VDS–Best Ex from the HUD-owned source systems, which obtain records from FHA-approved mortgagees and third-party providers, mortgagors, taxing authorities, insurance companies, and housing counselors as a case flows through the case life cycle from underwriting and counseling, endorsement, loan servicing, loss mitigation, loan termination, and property disposition.

- FHA single family insured mortgage loans over 90-days delinquent is linked to HUD's Single Family Default Monitoring System (SFDMS) data collection requirements.
- Secretary-held Single Family REO properties is linked to HUD's Single Family Asset Management System (SAMS) data collection requirements.

ROUTINE USES OF RECORDS MAINTAINED IN THE SYSTEM, INCLUDING

CATEGORIES OF USERS AND PURPOSES OF SUCH USES: In addition to those disclosures generally permitted under 5 U.S.C. Section 552a(b) of the Privacy Act, all or a portion of the records or information in this system may be disclosed to authorized entities, as determined to be relevant and necessary, outside the Department of Housing and Urban Development (HUD) as a routine use pursuant to 5 U.S.C. 552a(b)(3):

- a. To appropriate agencies, entities, and persons for disclosures compatible with the purpose for which the records in this system were collected, as set forth by Appendix I – HUD's Routine Use Inventory Notice published in the Federal Register (80 FR 81837-81840):
- b. To the National Archives and Records Administration (NARA) and the General Services Administration (GSA) for records having sufficient historical or other value to warrant continued preservation by the United States Government, or for inspection under authority of Title 44, Chapter 29, of the United States Code.
- c. To a congressional office from the record of an individual, in response to an inquiry from the congressional office made at the request of that individual.

- d. To contractors, grantees, experts, consultants and their agents, or others performing or working under a contract, service, grant, or cooperative agreement with HUD, when necessary to accomplish an agency function related to a system of records.

Disclosure requirements are limited to only those data elements considered relevant to accomplishing an agency function. Individuals provided information under these routine use conditions are subject to Privacy Act requirements and disclosure limitations imposed on the Department.

- e. To appropriate agencies, entities, and persons when:

- i. HUD suspects or has confirmed that the security or confidentiality of information in a system of records has been compromised;

- ii. HUD has determined that as a result of the suspected or confirmed compromise there is a risk of harm to economic or property interests, identity theft, or fraud, or harm to the security or integrity of systems or programs (whether maintained by HUD or another agency or entity) that rely upon the compromised information; and

- iii. The disclosure made to such agencies, entities, and persons is reasonably necessary to assist in connection with HUD's efforts to respond to the suspected or confirmed compromise and prevent, minimize, or remedy such harm for purposes of facilitating responses and remediation efforts in the event of a data breach.

- f. To the Department of Justice (DOJ) when seeking legal advice for a HUD initiative or in response to DOJ's request for the information, after either HUD or DOJ determine that such information is relevant to DOJ's representatives of the United States or any other components in legal proceedings before a court or adjudicative

body, provided that, in each case, the agency also determines prior to disclosure that disclosure of the records to DOJ is a use of the information contained in the records that is compatible with the purpose for which HUD collected the records. HUD on its own may disclose records in this system of records in legal proceedings before a court or administrative body after determining that the disclosure of the records to the court or administrative body is a use of the information contained in the records that is compatible with the purpose for which HUD collected the records.

POLICIES AND PRACTICES FOR STORAGE OF RECORDS:

- a. STORAGE:** Records for this system will be stored electronically in secure facilities and on secure servers. Electronic files are replicated at an off-site disaster recovery location in case of loss of computing capability or other emergency at the primary facility. Paper-based records are not maintained by VDS–Best Ex.
- b. RETRIEVABILITY:** Electronic records are retrieved by FHA case number and/or property address as the primary data identifier.
- c. SAFEGUARDS:** Records are maintained in a secured computer network and in the contractors' secured facilities. Access is limited to authorized personnel. VDS–Best Ex data and outputs are transmitted via approved Secure File Transfer Protocol methodology.
- d. RETENTION AND DISPOSAL:** In accordance with General Records Schedule 1.1, Financial Management and Reporting Records, Items 010 and 011, the records are maintained for 6 years or when business use ceases. Paper records are not in use. Backup and Recovery digital media will be destroyed or otherwise rendered irrecoverable per NIST SP 800-88, Rev. 1, “Guidelines for Media Sanitization” (December 2014).

ADMINISTRATIVE, TECHNICAL, AND PHYSICAL SAFEGUARDS: FHA ensures the protection of program participants' PII and mortgagee business sensitive information by ensuring VDS–Best Ex's compliance with HUD and Federal Information Security Management Act (FISMA) security and privacy controls.

RECORD ACCESS PROCEDURES: For Information, assistance, or inquiries about records, contact John Bravacos, Senior Agency Official for Privacy, 451 Seventh Street, SW, Room 10139, Washington, DC 20410, telephone number 202-402-6836. When seeking records about yourself from this system of records or any other HUD system of records, your request must conform with the Privacy Act regulations in 24 CFR part 16. You must first verify your identity, by providing your full name, address, and date and place of birth. You must sign your request, and your signature must either be notarized or submitted under 28 U.S.C. § 1746, a law that permits statements to be made under penalty of perjury as a substitute for notarization. In addition, your request should:

- a. Explain why you believe HUD would have information on you.
- b. Identify which HUD office you believe has the records about you.
- c. Specify when you believe the records would have been created.
- d. Provide any other information that will help Freedom of Information Act (FOIA) staff determine which HUD office may have responsive records.

If your request is seeking records pertaining to another living individual, you must include a statement obtained from that individual certifying their agreement for you to access their records. Without the above information, the HUD FOIA office may not conduct an effective search, and your request may be denied due to lack of specificity or lack of compliance with regulations.

CONTESTING RECORD PROCEDURES: The Department's rules for contesting contents of records and appealing initial denials appear in 24 CFR part 16, Procedures for Inquiries.

Additional assistance may be obtained by contacting John Bravacos, Senior Agency Official for Privacy, 451 Seventh Street SW, Room 10139, Washington, DC 20410, or the HUD Departmental Privacy Appeals Officers, Office of General Counsel, Department of Housing and Urban Development, 451 Seventh Street SW, Room 10110, Washington DC 20410.

NOTIFICATION PROCEDURES: Individuals seeking notification of and access to any record contained in this system of records, or seeking to contest its content, may submit a request in writing to the Privacy Office at the address provided above or to the component's FOIA Officer, whose contact information can be found at <http://www.hud.gov/foia> under "contact". If an individual believes more than one component maintains Privacy Act records concerning him or her the individual may submit the request to the Senior Agency Official for Privacy, HUD, 451 7th Street, SW, Room 10139, Washington, DC 20410.

EXEMPTIONS PROMULGATED FOR THE SYSTEM: None

HISTORY: Not Applicable

John Bravacos,

Senior Agency Official for Privacy.

Billing Code: 4210-67

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